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AND EXCHANGE COMMISSION  
Washington, D.C. 20549

DP 3/4

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ANNUAL AUDITED REPORT  
FORM X-17A-5  
PART III

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Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING JANUARY 1, 2007 AND ENDING DECEMBER 31, 2007  
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: Pinnacle Capital Markets, LLC

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

4700 Falls of Neuse Rd, Suite 390

(No. and Street)

Raleigh

(City)

NC

(State)

27609

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

Michael Paciorek

(919) 850-0888

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

Batchelor Tillery & Roberts, LLP

(Name - If individual, state last, first, middle name)

P O Box 18068

(Address)

Raleigh, NC

(City)

27619

(State)

(Zip Code)

CHECK ONE:

☒ Certified Public Accountant

☐ Public Accountant

☐ Accountant not resident in United States or any of its possessions.

PROCESSED

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FINANCIAL

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\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

SEC 1410 (06-02)

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DP 3/5/08

## OATH OR AFFIRMATION

I, Michael Paciorek, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Pinnacle Capital Markets, LLC, as of December 31, 20 07, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Michael Paciorek  
Signature

Managing Director  
Title

[Signature]

Notary Public

This report \*\* contains (check all applicable boxes):

- ☒ (a) Facing Page.
- ☒ (b) Statement of Financial Condition.
- ☒ (c) Statement of Income (Loss).
- ☒ (d) Statement of Changes in Financial Condition.
- ☒ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- ☐ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☒ (g) Computation of Net Capital.
- ☒ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☐ (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- ☒ (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☒ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

\*\*For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

PINNACLE CAPITAL MARKETS, LLC

Consolidated Financial Statements  
and Internal Control Report

December 31, 2007 and 2006

(With Independent Auditors' Report Thereon)

**BATCHELOR, TILLERY & ROBERTS, LLP**

CERTIFIED PUBLIC ACCOUNTANTS

POST OFFICE BOX 18068

RALEIGH, NORTH CAROLINA 27619

RONALD A. BATCHELOR  
ANN H. TILLERY  
FRANKLIN T. ROBERTS  
WM. JAMES BLACK, JR.  
SCOTT E. CABANISS

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**Independent Auditors' Report**

The Members

Pinnacle Capital Markets, LLC:

We have audited the accompanying consolidated balance sheets of Pinnacle Capital Markets, LLC and subsidiary (the "Company") as of December 31, 2007 and 2006, and the related consolidated statements of income, changes in members' equity and cash flows for the years then ended that you are filing pursuant to Rule 17a-5 under the Securities Exchange Act of 1934. These consolidated financial statements are the responsibility of Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2007 and 2006, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The information contained in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements, but is supplementary information required by Rule 17a-5 under the Securities Exchange Act of 1934. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements, and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

*Batchelor, Tillery & Roberts, LLP*

February 19, 2008

# PINNACLE CAPITAL MARKETS, LLC

## Consolidated Balance Sheets

December 31, 2007 and 2006

<u>Assets</u>	<u>2007</u>	<u>2006</u>
Current assets:		
Cash and cash equivalents	\$ 1,040,352	1,378,383
Accounts receivable - trade	1,250,463	783,211
Other receivables	95,879	71,204
Prepaid expenses	<u>13,845</u>	<u>4,408</u>
Total current assets	2,400,539	2,237,206
Property and equipment, net	26,338	17,764
Other assets	<u>54,816</u>	<u>54,816</u>
	\$ <u>2,481,693</u>	<u>2,309,786</u>
 <u>Liabilities and Members' Equity</u>		
Current liabilities:		
Accounts payable	176,589	64,912
Accrued commissions and fees	<u>1,036,303</u>	<u>670,343</u>
Total current liabilities	1,212,892	735,255
Contingencies		
Members' equity	<u>1,268,801</u>	<u>1,574,531</u>
	\$ <u>2,481,693</u>	<u>2,309,786</u>

See accompanying notes to consolidated financial statements.

PINNACLE CAPITAL MARKETS, LLC

Consolidated Statements of Income

Years ended December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Revenues	\$ <u>12,885,453</u>	<u>11,137,424</u>
Operating expenses:		
Commission and fees	8,628,761	7,078,697
Clearing fees	1,141,959	1,229,736
Technology	1,042,386	1,141,673
Salaries and wages	292,475	244,374
Professional fees	23,178	13,313
Office	66,314	54,999
Travel and entertainment	54,457	27,058
Regulatory fees and licenses	16,026	31,247
Rent	62,586	53,309
Insurance	37,021	29,283
Depreciation	6,447	3,799
Taxes	30,937	33,243
Miscellaneous	<u>34,465</u>	<u>31,306</u>
	<u>11,437,012</u>	<u>9,972,037</u>
Income from operations	1,448,441	1,165,387
Interest income	<u>14,413</u>	<u>7,197</u>
Net income	\$ <u><u>1,462,854</u></u>	<u><u>1,172,584</u></u>

See accompanying notes to consolidated financial statements.

PINNACLE CAPITAL MARKETS, LLC

Consolidated Statements of Changes in Members' Equity

Years ended December 31, 2007 and 2006

Members' equity, December 31, 2005	\$ 858,814
Net income	1,172,584
Distributions	<u>(456,867)</u>
Members' equity, December 31, 2006	1,574,531
Net income	1,462,854
Distributions	<u>(1,768,584)</u>
Members' equity, December 31, 2007	\$ <u>1,268,801</u>

See accompanying notes to consolidated financial statements.

PINNACLE CAPITAL MARKETS, LLC

Consolidated Statements of Cash Flows

Years ended December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Net income	\$ 1,462,854	1,172,584
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	6,447	3,799
Changes in operating assets and liabilities:		
Accounts receivable - trade	(467,252)	(196,357)
Other receivables	(24,675)	(38,492)
Prepaid expenses	(9,437)	1,729
Accounts payable	111,677	10,630
Accrued commissions and fees	<u>365,960</u>	<u>195,244</u>
Net cash provided by operating activities	<u>1,445,574</u>	<u>1,149,137</u>
Cash flows from investing activities - capital expenditures	<u>(15,021)</u>	<u>(1,150)</u>
Cash flows from financing activities-members' distributions	<u>(1,768,584)</u>	<u>(456,867)</u>
Net (decrease) increase in cash and cash equivalents	(338,031)	691,120
Cash and cash equivalents, beginning of year	<u>1,378,383</u>	<u>687,263</u>
Cash and cash equivalents, end of year	\$ <u>1,040,352</u>	<u>1,378,383</u>

See accompanying notes to consolidated financial statements.



# PINNACLE CAPITAL MARKETS, LLC

## Notes to Consolidated Financial Statements

December 31, 2007 and 2006

### (1) Organization and Significant Accounting Policies

#### Organization

The Company was organized as Pinnacle Capital Markets, LLC (the "Company") under the laws of the state of North Carolina on September 30, 2003, to provide investment services to investors as a securities broker-dealer. The Company is licensed to operate in six states. Currently, the Company is only operating in North Carolina. The Company is a broker-dealer in securities registered with the Securities and Exchange Commission (SEC) and is a member of various exchanges and the Financial Industry Regulatory Authority, Inc. (FINRA). The Company's securities are cleared through a clearing broker-dealer. The Company does not maintain customer's security accounts nor does it perform custodial functions related to customer securities.

The Company's wholly-owned subsidiary, Pinnacle Capital Futures, LLC, is an introducing futures dealer which engages in offering electronic futures trading to its intended client base.

#### Revenue Recognition

The Company recognizes revenue from securities transactions on a trade-date basis.

#### Basis of Presentation

The Company's policy is to prepare its financial statements in accordance with accounting principles generally accepted in the United States of America.

#### Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Pinnacle Capital Markets, LLC and its wholly-owned subsidiary, Pinnacle Capital Futures, LLC, after elimination of all significant intercompany accounts and transactions.

#### Cash and Cash Equivalents

For purposes of the consolidated financial statements, cash and cash equivalents include cash, deposits in interest-bearing accounts, and other financial instruments with original maturities of less than three months.

#### Accounts Receivable

The Company writes off doubtful receivables in amounts equal to the estimated collection losses that will be incurred. No allowance is required for 2007 or 2006.

# PINNACLE CAPITAL MARKETS, LLC

## Notes to Consolidated Financial Statements, Continued

December 31, 2007 and 2006

### (1) Organization and Significant Accounting Policies, Continued

#### Property and Equipment

Property and equipment are stated at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the related assets, which are generally three to seven years.

Expenditures for repairs and maintenance are charged to expense as incurred. The costs of major renewals and betterments are capitalized. The cost and related accumulated depreciation of property and equipment are removed from the accounts upon retirement or other disposition and any resulting gain or loss is reflected in operations for the period.

#### Income Taxes

The Company is treated as a partnership for federal and state income tax purposes whereby its earnings and losses are included in the tax returns of the members. The consolidated financial statements, therefore, do not reflect a provision for income taxes.

#### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### Concentrations of Credit Risk

Financial instruments that potentially subject the Company to credit risk consist primarily of cash and cash equivalents. Cash and cash equivalents are placed with high credit quality banks. The balances are insured by the Federal Deposit Insurance Corporation up to \$100,000 per bank. Amounts on deposit in excess of this limit as of December 31, 2007 and 2006 were \$747,928 and \$1,153,991 respectively.

### (2) Net Capital Requirements

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (Rule 15c3-1), which requires the maintenance of minimum net capital and that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. As of December 31, 2007 and 2006, the minimum net capital was \$250,000 and \$49,017, respectively. As of December 31, 2007 and 2006, respectively, the Company had net capital, as defined, of \$932,925 and \$1,390,719 which was \$682,925 and \$1,341,702 in excess of required net capital, and its ratio of aggregate indebtedness to net capital was 1.3 and 0.53 to 1.

# PINNACLE CAPITAL MARKETS, LLC

## Notes to Consolidated Financial Statements, Continued

December 31, 2007 and 2006

### (3) Lease Commitments

The Company leased office space in August 2005 under a lease agreement that expires November 1, 2008. The monthly lease payment is \$3,635 with a scheduled annual increase of 3%. Additionally, the lease provided a tenant incentive of two free months rent during 2006. The future payments on the non-cancelable operating lease are as follows:

#### Year ending December 31,

2008	\$	<u>38,563</u>
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### (4) Property and Equipment

Property and equipment consist of the following:

	<u>2007</u>	<u>2006</u>
Computer equipment	\$ 24,877	21,128
Office equipment	12,263	991
Office furniture	<u>6,026</u>	<u>6,026</u>
	43,166	28,145
Less accumulated depreciation	<u>(16,828)</u>	<u>(10,381)</u>
	\$ <u>26,338</u>	<u>17,764</u>

### (5) Related Party Transactions

The Company transacts business with two companies, RND Enterprises ("RND") and Pinnacle Capital Commodities, dba PCC ("PCC") which are owned by individuals with ownership positions in the Company. Commissions paid to both companies during 2007 and 2006 were \$1,364,560 and \$1,058,594, respectively.

### (6) Litigation

The Company was a defendant in a lawsuit filed by a former business associate of its members. The suit asked for actual and punitive damages in excess of \$1,000,000 for various acts of breach of contract and misappropriation of certain trade secrets. Management of the Company believed the suit was completely without merit; however, the lawsuit was settled in 2006 for \$75,000 in order to avoid protracted legal costs.

## PINNACLE CAPITAL MARKETS, LLC

Supplemental Schedules of Computation and Reconciliation of  
Net Capital in Accordance with Rule 15c3-1 of the  
Securities and Exchange Commission

December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Total assets	\$ 2,481,693	2,309,786
Deduct: Aggregate indebtedness	<u>(1,212,892)</u>	<u>(735,255)</u>
Net equity	1,268,801	1,574,531
Add: Excluded indebtedness	-	-
Add: Subordinated liabilities	-	-
Deduct: Non-liquid assets	(95,302)	(144,220)
Deduct: Non-allowable ownership equity	(233,207)	(28,478)
Deduct: Securities haircuts	<u>(7,367)</u>	<u>(11,114)</u>
Net capital	\$ <u>932,925</u>	<u>1,390,719</u>
Capital requirements:		
Broker-dealer	\$ 250,000	49,017
Net capital in excess of requirements	<u>682,925</u>	<u>1,341,702</u>
Net capital as above	\$ <u>932,925</u>	<u>1,390,719</u>
Net capital per December 31 FOCUS report (unaudited)	\$ 932,925	1,390,719
Adjustments	<u>-</u>	<u>-</u>
Adjusted net capital, December 31	\$ <u>932,925</u>	<u>1,390,719</u>

PINNACLE CAPITAL MARKETS, LLC

Supplemental Schedules of Computation and Reconciliation of  
Net Capital in Accordance with Rule 15c3-3 of the  
Securities and Exchange Commission

December 31, 2007 and 2006

The Company is exempt from the provisions of Rule 15c3-3 under the Securities Exchange Act of 1934, in that the Company's activities are limited to those set forth in the conditions for exemption appearing in paragraph (k)(2)(ii) of the Rule.

**BATCHELOR, TILLERY & ROBERTS, LLP**

CERTIFIED PUBLIC ACCOUNTANTS

POST OFFICE BOX 18068

RALEIGH, NORTH CAROLINA 27619

RONALD A. BATCHELOR  
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**The Members**

**Pinnacle Capital Markets, LLC:**

In planning and performing our audit of the consolidated financial statements of Pinnacle Capital Markets, LLC (the "Company") and subsidiary for the year ended December 31, 2007, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure. Among the elements of the internal control structure that we considered are the accounting system and control procedures.

Also, as required by Rule 17a-5(g)(1) of the Securities and Exchange Commission (the "SEC"), we have made a study of the practices and procedures followed by the Company including consideration of control activities for safeguarding securities. This study included tests of such practices and procedures that we considered relevant to the objectives stated in Rule 17a-5(g) in making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under Rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of Rule 15c3-3. Because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following:

- 1) Making quarterly securities examinations, counts, verifications, and comparisons and recordation of differences required by Rule 17a-13.
- 2) Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System.

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls and of the practices and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable, but not absolute, assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit preparation of consolidated financial statements in conformity with generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in internal control and the practices and procedures referred to above, error or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first and second paragraphs and would not necessarily identify all deficiencies in internal control that might be material weaknesses. We did not identify any deficiencies in internal control and control activities for safeguarding securities that we consider to be material weaknesses, as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures, as described in the second paragraph of this report, were adequate as of December 31, 2007 to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Directors, management, the SEC, the Financial Industry Regulatory Authority, Inc., and any other regulatory agencies that rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to be and should not be used by anyone other than these specified parties.

*Batchelor, Gilling & Roberts, LLP*

February 19, 2008